REPORT OF EXAMINATION
OF THE

MERITPLAN INSURANCE COMPANY

AS OF
DECEMBER 31, 2005

Participating State
and Zone:

California

Filed June 19, 2007

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Los Angeles, California
May 25, 2007

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Kent Michie
Secretary, Zone IV-Western
Commissioner of Insurance
Department of Insurance, State of Utah
Salt Lake City, Utah

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

MERITPLAN INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 3349 Michelson Drive, Suite 200, Irvine, California 92612.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examinations of the Company's parent, Balboa Insurance Company and affiliate, Balboa Life Insurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; business in force by states; loss experience; and sales and advertising.

COMPANY HISTORY

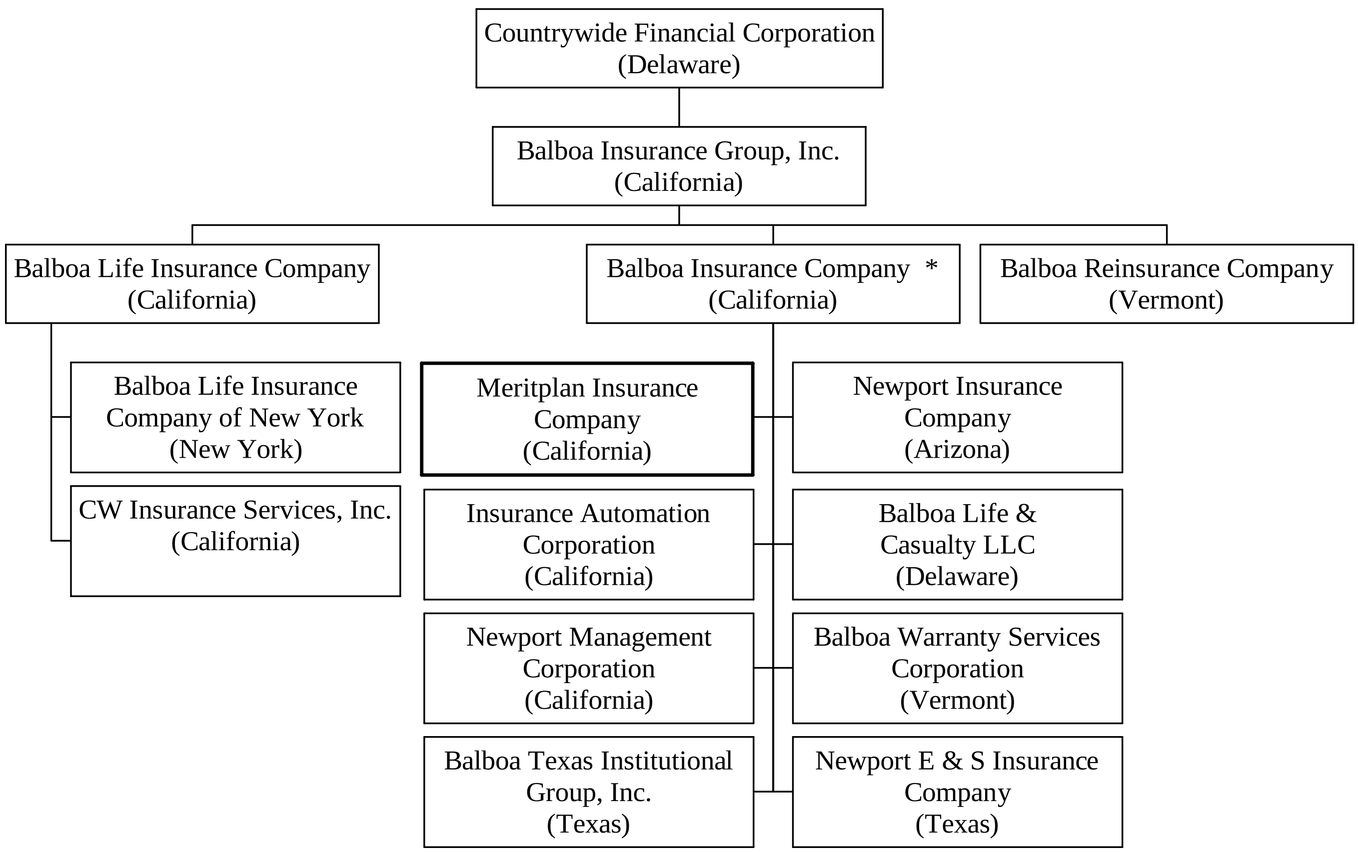
The Company is a wholly-owned subsidiary of Balboa Insurance Company (BIC), which is a wholly-owned subsidiary of Balboa Insurance Group (BIG). BIG is a wholly owned subsidiary of Countrywide Financial Corporation (CFC). BIG is the holding company for the insurance services group of CFC, which provides agency-related services, property, casualty and life insurance underwriting and reinsurance.

In May 2005, BIC contributed $2.5 million in cash to the Company. In September 2005, BIC contributed $4 million in cash to the Company.

In September 2006, Balboa Life Insurance Company paid a $30 million extraordinary dividend to its immediate parent, BIG. The extraordinary dividend was approved by the California Department of Insurance (CDI) on September 21, 2006 pursuant to California Insurance Code (CIC) Section 10530. At the same time, BIG contributed $30 million in cash and securities to BIC who, in turn, contributed $30 million in cash and securities to the Company.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary and affiliated insurance companies, depicts the Company's relationship within the holding company system: (all ownership is 100% except as noted below)



(*) Balboa Life Insurance Company owns one share of stock out of 25,000 issued and outstanding shares of Balboa Insurance Company

Management of the Company is vested in a seven-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2005 follows:

Directors

Name and Residence	Principal Business Affiliation
Carlos M. Garcia Hidden Hills, California	Executive Managing Director, Chief of Bank and Insurance Operations Countrywide Financial Corporation
Andrew Gissinger III Calabasas, California	Senior Managing Director, Chief Production Officer Countrywide Home Loans
Robert V. James Dana Point, California	Senior Managing Director, President and Chief Operating Officer Balboa Insurance Group
Richard S. Lewis Chatsworth, California	Executive Vice President, Chief Administrative Officer Balboa Insurance Group
Mark A. McElroy Santa Ana, California	Managing Director Balboa Insurance Group
Thomas M. Scrivener Camarillo, California	Managing Director, Financial Analysis and Administration Countrywide Financial Corporation
Howard B. Wexler Dana Point, California	Managing Director, General Counsel Diversified Operations Countrywide Financial Corporation

Principal Officers

Name	Title
Robert V. James	President, Chief Operating Officer and Chief Executive Officer
Franklin T. Dunn	Executive Vice President, Secretary and General Counsel
Ronald A. Closser	Executive Vice President, Personal Lines
Mark A. McElroy	Executive Vice President, Lender Placed Lines
David A. Kuhn	Executive Vice President, Commercial Lines Brokerage

Name	Title
Kenneth L. Mertzel	Executive Vice President, Chief Financial Officer
Richard S. Lewis	Executive Vice President, Chief Administrative Officer
Craig L. Carson	Executive Vice President, Marketing
Laurie A. Fitzgerald	Executive Vice President, Chief Accounting Officer

Management Agreements

Administrative Services Agreement: Effective January 1, 2001, Balboa Life & Casualty LLC (BLC) entered into an Administrative Services Agreement with the Company, Balboa Insurance Company (BIC), Balboa Life Insurance Company (BLIC), Newport Management Corporation (NMC), Newport Insurance Company (NIC), and Insurance Automation Corporation (IAC). Under the terms of the agreement, BLC provided all human resources, underwriting, legal services, actuarial services, claims adjusting and payment assistance, facilities, accounting functions, computer resources, and marketing functions. The companies reimburse BLC for the actual cost of these services. The California Department of Insurance (CDI) approved this agreement on May 16, 2001. For 2003, 2004, and 2005, the Company paid BLC $2.89 million, $3.46 million and $3.67 million, respectively.

On December 31, 2005, BIC terminated the Administrative Services Agreement, and entered into a Balboa Insurance Group Intercompany Services Agreement (Intercompany Services Agreement) effective January 1, 2006. The Intercompany Services Agreement is between BIC, the Company, BLC, BLIC, NMC, NIC, IAC, Balboa Life Insurance Company of New York (BLICNY), Newport E&S Insurance Company, Balboa Warranty Services Corporation, Countrywide Insurance Services, Inc. (CIS), Countrywide Insurance Services of Arizona, Inc. (CIS-AZ), Countrywide Insurance Services of Texas, Inc. (CIS-TX), DirectNet Insurance Agency, Inc. (Direct Net) and DirectNet Insurance Agency of Arizona, Inc. (DirectNet-AZ), collectively known as the Group Members.

Under the terms of the new Intercompany Services Agreement, BIC now provides the information systems services, EDP, accounting and financial functions, underwriting, claims adjusting and payment processing, legal services, actuarial services, and marketing functions. The Group Members reimburse BIC for the actual cost of these services. BLC continues to provide the Group Members with payroll services and facilities based on actual cost. BLIC, NMC, CIS and DirectNet also provide some miscellaneous services to the Group Members on an actual cost basis.

The new Intercompany Services Agreement was entered into to consolidate all service agreements into one agreement. The new Intercompany Services Agreement also specifically identifies the services being provided to affiliated insurance companies. Since BLC still acts as payroll agent for the Group Members, the Company continues to reimburse BLC. In 2006, the Company paid BLC $11 million. The CDI approved this agreement on February 27, 2006.

Investment Management Agreement: Effective April 17, 2000, the Company, BLIC, BIC, NIC and IAC entered into an Investment Management Agreement with an affiliate, Country Home Loans, Inc. (CHL). In accordance with the Company's investment guidelines, CHL provides investment management services and is compensated based on actual expenses incurred. The CDI approved this agreement on November 2, 2000. For 2003 and 2004, the Company paid $32,258 and $35,096, respectively, in investment and miscellaneous fees to CHL under the terms of this agreement. No fees were paid in 2005.

Consolidated Federal Income Tax Allocation Agreement: The Company is a party to a Consolidated Federal Income Tax Allocation Agreement with its affiliates and ultimate parent, Countrywide Financial Corporation (CFC). Under the terms of this agreement, the companies file a consolidated federal income tax return. The consolidated federal income tax liability is allocated between the companies in the ratio that each companies separate tax return liability bears to the total consolidated federal tax liability. This agreement was entered into and approved by the CDI on November 2, 2000. For 2003, 2004 and 2005, the Company paid $556,077, $289,405 and $740,457, respectively, in income tax to CFC under the terms of this agreement.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2005, the Company was licensed to transact multiple lines of property and casualty insurance. The following is a list of the 33 states the Company is licensed:

Alabama	Kentucky	New York
California	Louisiana	North Carolina
Colorado	Maryland	Ohio
Delaware	Michigan	Oklahoma
Florida	Minnesota	Oregon
Georgia	Mississippi	South Carolina
Hawaii	Missouri	Tennessee
Idaho	Montana	Texas
Indiana	Nebraska	Utah
Iowa	Nevada	Washington
Kansas	New Mexico	Wisconsin

Of the $239.8 million direct premiums written, approximately $112.8 million or 47% was written in California, $41.8 million or 17.4% was written in Florida and $19.8 million or 8.3% was written in Texas.

The Company specializes in lender placed and personal lines insurance distributed through financial institutions and agents including property and automobile collateral protection, homeowners and auto physical damage and liability. The principal lines of business written are automobile physical damage, homeowners, fire, allied, private passenger automobile liability, and credit. In total, the principal lines of business represent approximately 99.5% of the Company's direct premiums written in 2005.

Business is primarily marketed and produced through a combination of agencies affiliated with the Company as well as financial institutions, general and independent agents. Countrywide Insurance Services, an affiliated general agent, is the largest producer.

Effective August 1, 2004, the Company, Balboa Insurance Company (BIC), Newport Insurance Company (NIC), and Newport E&S Insurance Company (collectively known as the Companies) entered into an agency agreement with Arrowhead General Insurance Agency, Inc. (Arrowhead).

Under the terms of the agreement, Arrowhead has the authority to accept applications and to issue homeowners and automobile insurance policies on behalf of the Companies. As compensation, Arrowhead receives an advance commission and a contingent commission based on loss experience.

Effective April 28, 2005, the Company, BIC and NIC (collectively known as the Balboa Group) entered into an agency agreement with Carnegie Agency, Inc. (Carnegie). Under the agreement, Carnegie has the authority to accept applications and to issue automobile insurance policies on behalf of the Balboa Group, only in the state of California. As compensation, Carnegie receives an advance commission and a contingent commission based on earned premiums.

In 2006, Carnegie became a managing general agent (MGA) as defined under California Insurance Code (CIC) Section 769.81(c). Due to this change in the relationship and pursuant to CIC Section 769.84(f), the Company was required within 30 days to notify the California Department of Insurance (CDI) and Carnegie of its MGA status. The Company did not comply with this requirement. However, the Company did notify the CDI and Carnegie of the MGA status of Carnegie on February 13, 2007. It is recommended that the Company and Carnegie fully comply with the provisions of the Managing General Agents Act (CIC Sections 769.80 through 769.87).

During 2005 and 2006, Arrowhead and Carnegie produced a total of $4.9 million and $7.1 million, respectively, in direct written premiums for the Company.

Effective June 1, 2005, the Balboa Group entered into a Strategic Alliance Agreement (Alliance Agreement) with Atlantic Mutual Insurance Company and Centennial Insurance Company (Atlantic Mutual Group). The Alliance Agreement was entered into by the Balboa Group in order to expand its personal lines of business in 13 midwestern and eastern states (excluding Florida) and including the District of Columbia. The Atlantic Mutual Group provides the Balboa Group with its expertise in the marketing of high-value homeowners' policies. In addition, the Balboa Group continues to re-underwrite and price this business. A further discussion of the

Alliance Agreement is included in the “Growth of the Company” and “Reinsurance” sections of this Report of Examination.

GROWTH OF COMPANY

The Company has experienced significant growth since the last examination as noted in the following schedule:

Year	Admitted Assets	Surplus As Regards Policyholders	Direct and Assumed Premiums Written	Net Premiums Written	Net Income / (Loss)
2002	$ 41,025,746	$ 13,515,809	$ 114,269,048	$ 16,178,116	$ (1,126,147)
2003	35,597,246	14,931,325	154,878,591	22,225,251	1,386,043
2004	41,766,659	15,523,104	157,180,665	21,915,051	591,695
2005	88,651,261	20,390,832	280,724,477	40,953,770	(131,996)
2006	102,010,758	57,011,582	305,984,856	38,498,258	4,922,708

From 2002 through 2006, admitted assets have increased 148%; surplus as regards policyholders has increased 322%. Direct and assumed as well as net premiums written have increased 167% and 138%, respectively. In addition, the Company reported an aggregate net income of $5.6 million for this same period.

The Company’s significant growth is primarily the result of the previously discussed Strategic Alliance Agreement with the Atlantic Mutual Group and the agency agreements with Arrowhead General Insurance Agency, Inc. (Arrowhead) and Carnegie Agency, Inc. (Carnegie). The Strategic Alliance Agreement, through the intercompany pooling agreement, resulted in direct and assumed premiums written increasing from 2005 to 2006 by approximately $1.8 million or 14% in the fire and homeowners multiple peril lines of business. Business written through the agency agreements with Arrowhead and Carnegie consisted of private passenger automobile liability and physical damage insurance. As a result, direct and assumed premiums written increased from 2005 to 2006 by approximately $26.6 million or 21% for these lines of business.

It was also noted that the Company's underwriting expense ratios, as a percentage of net premiums earned, have been high for the last five years. From 2002 through 2006, the expense ratios have ranged from 38.6% to 60.0%. The high ratios, according to the Company, are due to the high commission rates associated with certain agents and investments by the Company in its infrastructure to support the substantial growth.

REINSURANCE

Intercompany Pooling Agreement

The Company entered into a Property and Casualty Companies Pooling Agreement (Pooling Agreement) with its parent Balboa Insurance Company (BIC), and affiliate, Newport Insurance Company (NIC). Under the terms of the Pooling Agreement all business written by the Company, BIC and NIC is pooled. The pooled premiums, losses, and expenses are reapportioned and shared by the three companies, 4% for the Company, 92% for BIC and 4% for NIC. The pooling agreement was approved by the California Department of Insurance (CDI) on April 4, 2005 effective January 1, 2005.

Assumed

The Company's assumed business consists entirely of the results of the Pooling Agreement, which includes the impact of the Strategic Alliance Agreement with Atlantic Mutual Group.

The Company reported assumed premiums and liabilities totaling $40.9 million and $28.4 million, respectively, as of year-end 2005. As of year-end 2006, the Company reported assumed premiums and liabilities of $38.5 million and $28.8 million, respectively.

Ceded

The Company cedes to the Pooling Agreement net of all external reinsurance. Under the terms of its external reinsurance program, the largest net amount retained by the Company is $1 million on any one risk for property and casualty lines. The following is a summary of the principal external reinsurance agreements in force as of December 31, 2005:

Type of Contracts	Reinsurer(s) Name	Company's Retention	Reinsurer's Maximum Limits
Property – Excess of Loss			
First Property Excess of Loss	Various/Authorized and Unauthorized	$ 1 million per risk	$ 4 million excess of $ 1 million (1)
Second Property Excess of Loss	Various/Authorized and Unauthorized	None	$ 10 million excess of $ 5 million (1)
Casualty – Excess of Loss			
First Casualty Excess of Loss	Various/Authorized and Unauthorized	$ 1 million per risk	$ 4 million excess of $ 1 million (2)

(1) Not to exceed $10 million as respects any loss occurrence involving two or more risks.
(2) Not to exceed $4 million as respects any one loss occurrence or $8 million in all during the term of the agreement.

The Company cedes its direct business related to the Alliance Agreement to Atlantic Mutual Mutual Insurance Company under the terms of a 50% quota share reinsurance agreement. To date, the Company has not ceded any business under the terms of this reinsurance agreement.

Effective January 1, 2004, the Company entered into a 100% quota share reinsurance (fronting) agreement with Yosemite Insurance Company. The coverage is for lender placed (residential and commercial real property) and creditor placed (motor vehicle) insurance policies. As of year-end 2005, the total ceded premiums and reinsurance recoverables were $479,000 and $249,000, respectively. The Company has one additional immaterial fronting agreement with Gentle Winds Reinsurance, Ltd. that is in run-off.

Effective January 1, 2007, new or amended fronting agreements are subject to the requirements of California Code of Regulations (CCR) Title 10, Section 2303.15(b), which requires insurers to retain 10% of direct premiums written per line of business.

The above mentioned 50% and 100% quota share cessions, along with other property and casualty reinsurance cessions in force, are reflected in the following table:

Type of Contract	Reinsurer(s) Name	Company's Retention	Reinsurer's Maximum Limits
Other Property/Casualty Reinsurance Treaties			
50% Quota Share Homeowners, Auto, Umbrella, Valuables, Watercraft and Other	Atlantic Mutual Insurance Company	50%	50%
65% Quota Share Basic Renters	ICOM Limited (Bermuda)	35%	65%
90% Quota Share Home Rebound *	Triton Insurance Company	10%	90%
100% Quota Share Guaranteed Auto Protection	Gentle Winds Reinsurance, Ltd.	0%	100%
100% Quota Share Lender and Creditor Placed *	Yosemite Insurance Company	0%	100%

* Deficiencies noted in special termination clause.

Of the five other property/casualty reinsurance treaties noted in the previous schedule, two had deficiencies in the special termination clause. These agreements allow either party to terminate the agreement due to the insolvency of the other party. This termination article does not comply with the requirements of Statements of Statutory Accounting Principle (SSAP) 62, Paragraph 7 which states, in part, that “reinsurance contracts shall not permit entry of an order of rehabilitation or liquidation to constitute an anticipatory breach by the reporting entity, nor grounds for retroactive revocation or retroactive cancellation of any contracts of the reporting entity." It is recommended that the Company amend its reinsurance agreements to comply with the requirements of SSAP 62, Paragraph 7.

For property losses from a single occurrence such as earthquakes or hurricanes, the Company purchases property catastrophe excess reinsurance. For any one occurrence, the Company retains the liability for the first $25 million of paid losses. For aggregate losses that exceed $25 million for one occurrence, the coverage provided by the property catastrophe excess reinsurance is summarized as follows:

Type of Contract	Reinsurer(s) Name	Company's Retention	Reinsurer's Maximum Limits
Property – Catastrophe			
First Property Catastrophe Excess of Loss	Various/Authorized and Unauthorized.	$25 million per occurrence	$25 million excess of $25 million (1)
Second Property Catastrophe Excess of Loss	Various/Authorized and Unauthorized	None	$75 million excess of $50 million (2)
Third Property Catastrophe Excess of Loss	Various/Authorized and Unauthorized	None	$150 million excess of $125 million (3)
Third Event Catastrophe Excess	Various/Authorized and Unauthorized	$25 million occurrences (4)	$25 million
Blanket Catastrophe Aggregate Stop Loss	Tokio Millennium Re Ltd (Bermuda)	$30 million per occurrence	$35 million excess of $30 million

(1) Not to exceed $50 million in the aggregate during the term of the contract.
(2) Not to exceed $150 million in the aggregate during the term of the contract.
(3) Not to exceed $300 million in the aggregate during the term of the contract.
(4) Covers third occurrence after hurricane Katrina and Wilma.

For its entire reinsurance ceded program as of year-end 2005, the Company reported ceded premium and reinsurance recoverables of $239.8 million and $223 million, respectively. As of year-end 2006, the Company reported $267.5 million and $175.7 million, respectively.

ACCOUNTS AND RECORDS

The previous examination disclosed that the Company's assets were commingled with assets of its affiliates. In an effort to resolve this issue, the Company entered into an Intercompany Pooling Agreement (Pooling Agreement) with its affiliates, Balboa Insurance Company (BIC) and Newport Insurance Company. Under the terms of the Pooling Agreement, BIC is authorized to collect premiums on behalf of all parties to the Pooling Agreement.

During the course of this examination, it was noted that premium receipts on certain property and casualty business written by the Company and its affiliates are remitted directly to Balboa Life Insurance Company (BLIC), an affiliated life insurance company. On a monthly basis, BLIC allocates the cash receipts back to the appropriate company. Since BLIC is not a party to the Pooling Agreement, it is recommended that the Company and BLIC change these procedures so that premium receipts not associated with the Pooling Agreement are remitted directly to the company that issued the policy.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Underwriting and Investment Exhibit for the Year Ended December 31, 2005

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2005

Statement of Financial Condition
as of December 31, 2005

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Note
Bonds	$ 46,629,120	$	$ 46,629,120	
Cash and short-term investments	3,454,732		3,454,732	
Investment income due and accrued	448,340		448,340	
Premiums and considerations:				
Premiums and agents' balances in course of collection	1,898,305	85,371	1,812,934	
Deferred premiums, agent’s balances and installments booked but deferred and not yet due	4,228,271		4,228,271	
Reinsurance:				
Amounts recoverable from reinsurers	17,123,958		17,123,958	
Net deferred tax asset	2,128,240	123,219	2,005,021	
Guaranty funds receivable or on deposit	206,110		206,110	
Receivable from parent, subsidiaries and affiliates	12,702,756		12,702,756	
Aggregate write-ins for other than invested assets	1,096,142	1,056,123	40,019	
Total assets	$ 89,915,974	$ 1,264,713	$ 88,651,261	

Liabilities, Surplus and Other Funds			Note
Losses		$ 6,572,001	(1)
Reinsurance payable on paid loss and loss adjustment expense		1,977,589	
Loss adjustment expenses		1,820,204	(1)
Commission payable, contingent commission and other similar charges		172,098	
Other expenses		442,651	
Taxes, licenses and fees		350,537	
Current federal and foreign income taxes		1,785,417	
Unearned premiums		21,172,517	
Advance premiums		153,161	
Ceded reinsurance premiums payable		31,305,029	
Funds held by company under reinsurance treaties		224,595	
Provision for reinsurance		1,967,077	
Payable to parent, subsidiaries and affiliates		37,112	
Aggregate write-ins for liabilities		280,441	
Total liabilities		68.260.429	
Common capital stock	$ 2,820,000		
Gross paid-in and contributed surplus	9,367,919		
Unassigned funds (surplus)	8,202,913		
Surplus as regards policyholders		20,390,832	
Total liabilities, surplus and other funds		$ 88,651,261	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2005

Statement of Income

Underwriting Income		
Premiums earned		$ 29,649,831
Deductions:		
Losses incurred	$ 14,756,855	
Loss expense incurred	2,803,046	
Other underwriting expenses incurred	12,813,640	
Aggregate write-ins for underwriting deductions	(550,000)	
Total underwriting deductions		29,823,540
Net underwriting loss		(173,709)
Investment Income		
Net investment income earned	$ 1,665,302	
Net realized capital losses	(66,055)	
Net investment gain		1,599,247
Other Income		
Net loss from agents' or premium balances charged off	$ (38,519)	
Aggregate write-ins for miscellaneous income	(179,901)	
Total other income		(218,420)
Net income before federal and foreign income taxes		1,207,118
Federal and foreign income taxes incurred		1,339,114
Net loss		$ (131,996)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2004		$ 15,523,104
Net loss	$ (131,996)	
Change in net deferred income tax	1,376,013	
Change in nonadmitted assets	(1,140,690)	
Change in provision for reinsurance	(1,912,158)	
Surplus Adjustment: Paid-in	6,500,000	
Aggregate write-ins for gains in surplus	176,558	
Change in surplus as regards policyholders		4,867,728
Surplus as regards policyholders, December 31, 2005		$ 20,390,832

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2005

Surplus as regards policyholders, December 31, 2002, per Examination			$ 13,515,809
	Gain in Surplus	Loss in Surplus	
Net income	$ 1,845,742	$	
Change in net deferred income tax	1,413,045		
Change in nonadmitted assets		1,102,245	
Change in provision for reinsurance		1,958,077	
Surplus adjustments: Paid-in	6,500,000		
Aggregate write-ins for losses in surplus	176,558		
Totals	$ 9,935,345	$ 3,060,322	
Net increase in surplus as regards policyholders			6,875,023
Surplus as regards policyholders, December 31, 2005, per Examination			$ 20,390,832

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance (CDI), the Company's loss and loss adjustment expense reserves as of December 31, 2005 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Territory and Plan of Operation (Page 7): It is recommended that the Company and Carnegie Agency, Inc. fully comply with the provisions of the Managing General Agents Act (CIC Sections 769.80 through 769.87).

Reinsurance (Page 10): It is recommended that the Company amend its reinsurance agreements to comply with the requirements of Statements of Statutory Accounting Principles (SSAP) 62, Paragraph 7.

Accounts and Records (Page 14): It is recommended that the Company and Balboa Life Insurance Company change their procedures so that premium receipts not associated with the Pooling Agreement are remitted directly to the company that issued the policy.

Previous Report of Examination

Management and Control – Management Agreements (Page 5):

(1) It was recommended that the Company prepare and maintain written procedures on how allocations are to be made under the terms of the Administrative Services Agreement. The Company has complied with this recommendation.

(2) It was recommended that the Company prepare and maintain documentation that would provide a complete audit trail from the actual expenses incurred by the entity providing the services to the reimbursement of these amounts by the companies receiving these services. The Company has complied with this recommendation.

(3) It was recommended that the Company amend the Administrative Services Agreement and any future agreements when changes are made to the original approved agreement. Also, the Company should submit the amendment to the CDI for approval. The Company has complied with this recommendation.

Accounts and Records – Commingling of Assets (Page 12): It was recommended that the Company and its affiliates change their procedures so that premium receipts are remitted directly to the company that wrote the premium. The Company still has not fully complied with this recommendation.

Accounts and Records – Amendments to Financial Statements (Page 13): It was recommended that the Company implement controls to detect errors and properly review the statutory financial statements before they are submitted to the CDI. The Company has complied with this recommendation.

Receivables for Securities (Page 17): It was recommended that the Company comply with SSAP 27, paragraph 7 and 8. The Company has complied with this recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the officers and employees of Balboa Life & Casualty LLC during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Duane Armstrong, CFE
Examiner-In-Charge
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California